

Donors, implementing agencies and DFI/PDB cooperation

The case of Spain:
AECID, FIIAPP, COFIDES and FONPRODE

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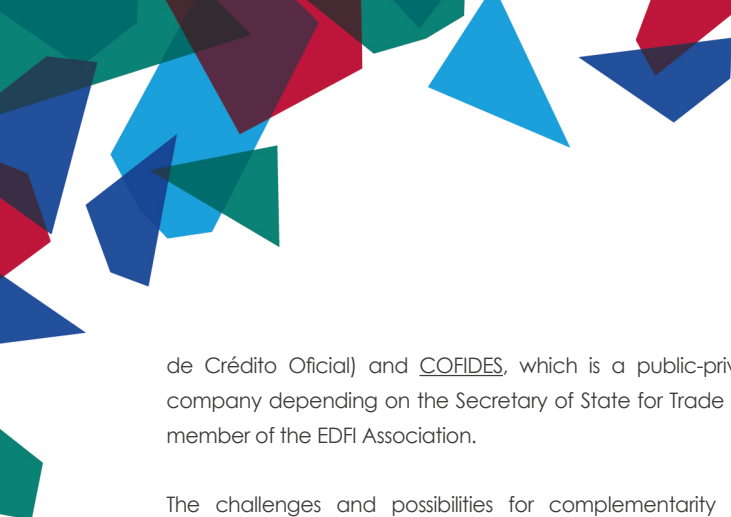
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This study is part of a series of analyses covering 8 European case studies (France, Germany, Italy, the Netherlands, Spain, United Kingdom, the European Bank for Reconstruction and Development - EBRD and the European Investment Bank - EIB) as well as a synthesis report.

COOPERATION FRAMEWORK

The Spanish system for international development cooperation consists of a web of official institutions, at different administrative levels, as well as non-governmental organisations, such as Coordinadora de ONGD (the NGO platform), and consultation bodies like the development cooperation council (Consejo de Cooperación para el Desarrollo). The system's structure and complexity partly explain the coordination challenges detailed in this case study.

At the central administrative level, technical cooperation is implemented by the Spanish Agency for International Development Cooperation (AECID) and by the international and Ibero-American foundation for administration and public policies (Fundación Internacional y para Iberoamérica de Administración y Políticas Públicas, FIIAPP), with the latter focused on public technical cooperation. Like most EU donors, Spain does not have a public development bank (PDB). However, it does have a development finance tool, the fund for the promotion of development, FONPRODE (Fondo para la Promoción del Desarrollo), managed by AECID with the support of the state-owned Official Credit Institute (Instituto



de Crédito Oficial) and COFIDES, which is a public-private company depending on the Secretary of State for Trade and member of the EDFI Association.

The challenges and possibilities for complementarity and coordination among stakeholders (both Spanish and European) are greatly determined by the institutional setting of the Spanish development cooperation system. AECID is a public agency reporting to the Ministry of Foreign Affairs, European Union and Cooperation (MAEUEC) via the State Secretariat for International Cooperation (SECI). The legal nature and, therefore, governance of FILAPP are different. As a foundation, it is overseen by a board of trustees, which is chaired by the first vice-presidency of the Spanish government. As of this writing, that vice-presidency was held by the minister for economy and digital transformation. SECI and AECID are represented on FILAPP's board, alongside two ministries, 13 other state secretariats (ranging from security and trade to equality and gender violence) and other institutions. Thus, the two Spanish public bodies implementing technical cooperation at the central level are institutionally connected. Moreover, SECI chairs FILAPP's standing committee, giving it a different role than the other state secretariats. At a less institutionalised level, all directors within the Spanish development cooperation system (i.e., those of AECID, FILAPP, Fundación Carolina and the Director General for Sustainable Development Policies) hold weekly coordination meetings, plus ad-hoc meetings on specific topics – for instance, EU trust funds and common positions at the Practitioners' Network.

Unlike in other EU countries, financial cooperation in Spain is institutionally embedded in AECID and, therefore, in technical cooperation, something that, in theory, could imply a potential for high complementarity and strong coordination between technical and financial cooperation (López Sabater, 2015). As already mentioned, the FONPRODE office is supported by COFIDES and this is done in various ways, including identifying financial operations; conducting financial, legal and risk analyses; and elaborating legal documents, among other tasks (Consejo de Cooperación 2022). As for ICO, it acts as the financial agent for FONPRODE. There is widespread consensus, including among interviewees, that the development-technical capacities of staff at the FONPRODE office might not be matched by financial capacities. This is where the knowledge and support of COFIDES could come in as an essential factor in the eventual success of Spanish financial cooperation (Consejo de Cooperación 2022). On the other hand, it has been observed that despite COFIDES' name – the 'des' standing for *desarrollo* (development) – the DFI has struggled to go beyond a merely financial approach to its activities – 'fi' stands for financial.

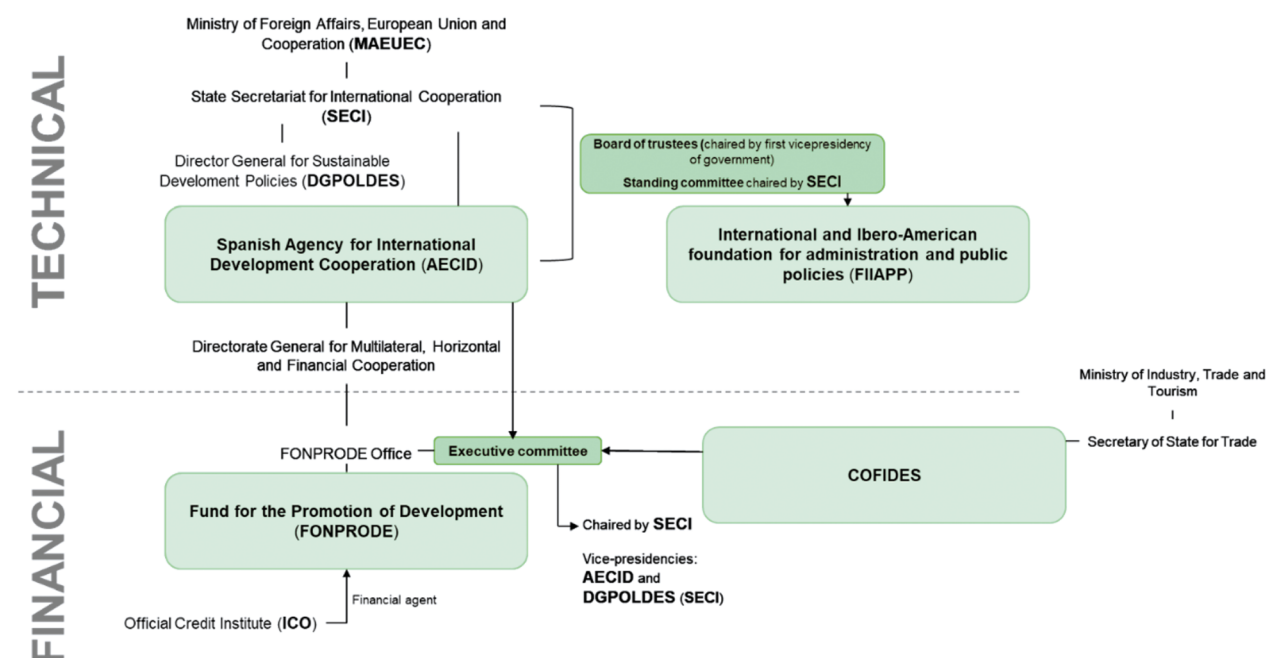
FONPRODE's activities are ruled by an executive committee (see Figure 1), which is the governing body of the financial tool. SECI chairs the executive committee, which additionally has two vice-presidencies; one is assigned to AECID and other to the Director General for Sustainable Development Policies (also reporting to SECI). Also represented in this body are other ministries, such as finance; education and vocational training; agriculture and fisheries; and ecological transition and demographic challenge. The Head of the FONPRODE's Office located in AECID acts a Secretary of the Executive Committee. As mentioned above, it could be argued that such an institutional setting, in which financial cooperation is embedded in a development agency that also manages technical cooperation, should lead to coordination and complementarity between the two types of international cooperation activities. According to key stakeholders and to previous assessments (Airef 2022), however, this is not the case. Other than the formal coordination tool of the executive committee, no additional coordination mechanisms are in place.

The incomplete integration of financial cooperation in Spanish cooperation is evident in planning exercises, as these are clearly centred on technical cooperation (Airef 2022). Neither the current master plan for Spanish cooperation (MAEC 2018) nor previous ones address financial and technical cooperation to a similar depth and in a holistic fashion. The same is true for the country programming (*Marcos de Asociación País, MAP*), where financial cooperation is, in almost all cases, virtually absent. Spain does have a planning tool for financial cooperation, the annual operational programme (*Programa Operativo Anual*), but this is not a public document. One interviewee characterised it as more a declaration of intent based on previous activities than a proper planning tool with clear objectives and targets.

However, the fact that the FONPRODE office is located at AECID has helped trigger some technical-financial cooperation coordination initiatives. Fairly recently, financial cooperation operations have begun to be identified and planned together with the geographical units of AECID.

Regarding FILAPP and financial cooperation implemented via FONPRODE, there is no single formal coordination mechanism, other than the presence of AECID on FILAPP's board. A similar situation is observed in decentralised cooperation implemented by the regions (autonomous communities), as these have no contact with any of the central bodies involved in Spanish financial cooperation.

Figure 1. Institutional setting of Spanish technical and financial development cooperation



Source: Authors.

OBSTACLES TO COORDINATION

The current study identified shortcomings and potentials in coordination of Spanish technical and financial cooperation at three levels: in the capital, with European partners, and between headquarters and the field.

Coordinating technical and financial cooperation in the capital

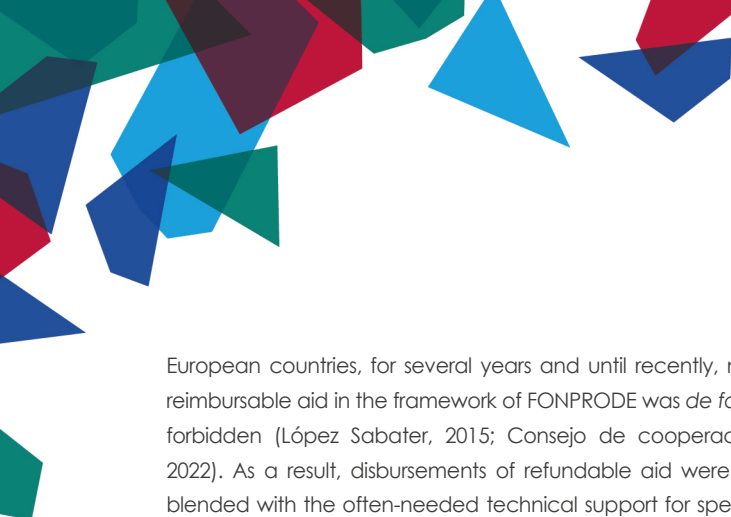
In Madrid, the shortcomings identified in the previous section have undoubtedly hindered greater integration and complementarity between technical (AECID and FIIAPP) and financial (AECID, FIIAPP and COFIDES) cooperation. The general problem of mis-coordination plays out in several dimensions.

The first is geographical focus. FONPRODE's portfolio gives a relatively high weight to Latin America and sub-Saharan Africa. As for Latin American operations, these could be aligned with AECID's and FIIAPP's technical cooperation, which is strongly focused on this same region. Regarding Africa, there is potential for coordination and alignment with FIIAPP, as it has a strong presence here. Alignment in Africa

could also include European peers specialised in the region (e.g., France, Germany, Portugal and the Netherlands). At the country level, it is notable that some of the main cooperation partners via FONPRODE are countries that are not identified as priority countries in the master plan for Spanish development cooperation, as it is the case with Bangladesh or South Africa (MAEC 2018, Consejo de Cooperación 2022).

The second dimension of mis-coordination is in the sectors and tools of operations. In theory, FONPRODE could cover a range of sectors and deploy different tools, such as public guarantees, debt instruments and capital participation. However, for a variety of legal, technical and historical reasons, in the past, FONPRODE has greatly focused its operations on microfinance, something that still defines an important share of its current portfolio. Such a restrictive scope of activities, focused on access to finance for SMEs, hinders greater cooperation and coordination with varied technical support in complementary sectors such as education, gender equality and food security (Airef 2022).

Thirdly, in the early 2010s, after the eruption of the Great Recession, given the pressure to contain fiscal deficits in several



European countries, for several years and until recently, non-reimbursable aid in the framework of FONPRODE was *de facto* forbidden (López Sabater, 2015; Consejo de cooperación, 2022). As a result, disbursements of refundable aid were not blended with the often-needed technical support for specific operations. This, of course, should not have impeded greater integration of AECID's financial and extra-FONPRODE technical operations. It resulted however in an additional disconnect between Spanish technical and financial cooperation.

The last dimension of mis-coordination is at the institutional level. As pointed out by a representative of COFIDES, formal coordination between the financial cooperation implemented by COFIDES and AECID and the latter's technical cooperation occurs at a low institutional level. This interviewee suggested that the institutional connection between the two bodies – which is ultimately the institutional link between the Ministry of Industry, Trade and Tourism and the Ministry of Foreign Affairs, European Union and Cooperation – should be at a higher ministerial or supra-ministerial level. This would allow for a more strategic and holistic vision on how technical and financial cooperation should occur. However, the informant added, this would first require a clearer idea and vision of Spain's role on the global development stage.

Coordinating with European peers

Spanish development institutions are active members of the European development cooperation community. Both AECID and FIIAPP are part of the Practitioners' Network for European Development Cooperation, which provides an additional space for coordination between them and EU peers. COFIDES is a founding member of the association of European Development Finance Institutions (EDFI). Furthermore, together with France's Agence Française de Développement (AFD), Italy's Cassa di Risparmio di Roma (CDR) and Germany's Kreditanstalt für Wiederaufbau (KfW), AECID is a founding member of the recently launched Joint European Financiers for International Cooperation (JEFIC) network. It remains to be seen whether JEFIC will be able to overcome some of the factors that have hindered greater complementarity, coordination and collaboration between Spain's development institutions and European peers.

Firstly, the abovementioned narrow focus on a short list of financial instruments has been a serious obstacle, since coordination can only happen when sector, geographical and tool approaches converge. Spain is absent from the development finance landscape in key domains, such as capital participation and public guarantees (Olivé et al. 2012, Martín Carretero and Fabra Portela 2012, Aref 2022). Moreover,

given the external indebtedness of a number of countries in the Global South, debt tools can be expected to be crowded out by capital tools, an area in which Spain has little expertise.

Second, the small scale of Spanish development cooperation is an impediment to cooperation with European peers. With an annual budget of around €300 million, the possibilities for coordination with, for instance, AFD (whose disbursements exceed €10 billion a year) are rather scarce. Also, due to scale limitations, as well as the finite human and technical capacities available at the FONPRODE office and at COFIDES, Spain has tended to adhere to financial operations previously identified and implemented by multilateral organisations. This has diluted the potential for Spain to implement its own vision of development cooperation objectives. It also reduces the ability of EU partners to coordinate their activities around a common set of objectives.

Missing links between headquarters and the field, and between financial and technical cooperation in the field

The delegations of Spanish cooperation in partner countries are the cooperation technical offices (Oficinas Técnicas de Cooperación, OTC). Currently, Spain has such offices in 31 countries, mostly in Latin America (16) and Africa (14), with one office located in Asia (the Philippines). Although they are administered by AECID, and are embedded in Spanish embassies overseas, their connection to financial cooperation has been relatively small.

There are hardly specialized personnel in this field (Aref 2022), nor institutional connections with COFIDES in the capital. An obvious result is that OTCs have very few interactions covering financial assistance with EU Delegations, offices of other MS and their delegates of financial cooperation.

Similarly, due to administrative regulations, the development cooperation personnel working abroad have little opportunity for a headquarters posting. The same applies to staff at headquarters, as they have limited opportunity for a post overseas. This creates a disconnect between the capital and development cooperation in partner countries.

The Ministry of Industry, Trade and Tourism maintains a network of offices overseas (Oficinas Económicas y Comerciales de España en el Exterior, OFECOMES), some of which are located in the same countries as an OTC. These could be a means for closer collaboration, for example, in identifying financial cooperation operations and building project pipelines. Nevertheless, as one interviewee pointed out, at present such collaboration is rare.

PROMISING EXAMPLES OF COORDINATION BETWEEN TECHNICAL AND FINANCIAL COOPERATION

Examples of coordination between Spanish technical and financial cooperation can, nonetheless, be found. Several of these are touched upon here, indicating promising pathways for future coordination initiatives.

The first example is that of a project that is being implemented in the framework of a water and sanitation cooperation fund. The project posts engineers from the company Tragsa in partner countries and tasks them to identify potential financial cooperation operations in the field.

The second example is the Global Gateway and Team Europe initiatives. Spanish actors' involvement in these has resulted in more intensive communication on financial cooperation possibilities with OTCs, triggering, to some extent, greater coordination between headquarters and the field.

Third, better coordination between financial and technical cooperation within Spain, and also between Spain and its European peers, is being achieved in the framework of the Huruma Fund. This is a project led by COFIDES within the EU Blending Facilities framework (through the Agriculture Financing Initiative, AgriFI). Its aim is to improve access to finance in rural areas and facilitate the provision of financial services to small and excluded farmers in Latin America, the Caribbean, sub-Saharan Africa and Asia. Technical assistance is also planned, in the form of consultancy services and training on agriculture-related matters. The Huruma Fund includes the participation of private investors, the EU and FONPRODE.

Along similar lines, though perhaps broader, *mesas país* are structured policy dialogues among peers bringing together partner governments, EU institutions and implementing agencies in EU member states. An example is the EUROCLIMA initiative in Latin America and the Caribbean (OECD 2022).



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HOW TO OVERCOME THE COORDINATION GAP?

There is a strong need to overcome the coordination gap, for obvious reasons, not least aid effectiveness. Moreover, as one interviewee pointed out, the elements that go hand in hand with technical cooperation (e.g., policy dialogue with partner countries and institution building) act as de-risking factors, and therefore favour the viability of financial cooperation operations.¹ Indeed, guarantees alone are not always enough to incentivise private banks to engage in blending activities.

The Spanish system of development cooperation is now at a critical juncture, as it is undergoing reform at three levels. A new law on development cooperation and global solidarity has been recently proposed at the Spanish parliament, and both AECID and FONPRODE are being reformed. This represents a large window of opportunity for a more consistent integration of technical and financial cooperation. In this regard, some key considerations can be highlighted arising from previous studies and the conversations with interviewees:

1. Another interviewee noted, however, that this narrative of policy dialogue opening investment options might dilute the mainstream narrative of the EU as a normative power and values-based donor.

- A new institutional setting for financial cooperation is needed. This could take the form of a PDB or financial agency. A PDB would have the capacity to leverage a larger volume of funds and offer increased possibilities for coordination and collaboration with EU PDBs. However, it could not guarantee a more holistic vision on Spanish technical and financial cooperation. It might even work against a united vision, as adapting to standardised financial rules, such as the Basel norms, could divert funds away from operations with high development impact. In this sense, a financial agency might be preferable for enhancing financial-technical coordination. The downsides would be less capacity to mobilise funds and, potentially, fewer opportunities for collaboration with European PDBs.
- Under the new law, OTCs would be replaced by OCEs (Oficinas de Cooperación Española), which could integrate other stakeholders, including personnel from COFIDES. This proposal is backed by a technical report issued by the development cooperation council (Consejo de Cooperación 2022). Nevertheless, this change has disadvantages as well, such as the lack of staff with adequate expertise and the introduction of a complex institutional setting for a fairly low volume of funds. An alternative proposed by one interviewee is a small network of regional financial offices that would work in close collaboration with the OTCs and the overseas offices of the Ministry of Industry, Trade and Tourism (OFECOMEs).
- As proposed by one of the interviewees, biannual plans of cooperation could overcome the limitations of master plans and MAPs when integrating financial and technical cooperation. This new tool could fill a gap at the meso level of planning.
- Also, the new law will likely include mechanisms to facilitate transfers of cooperation staff from headquarters to the field and the other way around.
- Lastly, Spanish development cooperation would benefit from a more holistic vision, as mentioned above, and more critical reflection on what it wants to do with each of the instruments and channels at its disposal, be they technical, financial cooperation or multilateral. This idea is somewhat reflected in the EU's 'policy first' approach (Terrón 2022).

It would result in greater complementarity across actors and tools, as each would have a clearer role in the broader picture. Involvement of the regions (autonomous communities) and of local governments in this exercise could also help in the pursuit of better coordination. This process could lead to enhanced collaboration and coordination with European peers as well. ■



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